



# Top Priorities for 2020: Time to Future Proof Treasury

Companies worldwide face an environment of change. Global supply chains are being reconfigured in response to a surge in protectionism and trade interventions. The growth outlook is clouded by geopolitical, regulatory and economic uncertainties. Digital disruption is reshaping industry ecosystems, and innovation has become a focus for investors in valuing companies.<sup>1</sup> In response, CEOs are transforming their enterprises through digitization.

## Citi Treasury Advisory Group

Meanwhile, treasurers are as busy as ever. The London Interbank Offer Rate (LIBOR), underpinning much corporate borrowing, faces its demise at the end of 2021. Low or negative G10 interest rates and a strong dollar have become the norm, creating headaches for treasury in FX risk management and investing liquid cash assets. Major tax changes – in U.S. tax reform and the slow-burning but accelerating OECD Base Erosion and Profit Shifting (BEPS) initiative – are changing corporate trading models, with knock-on consequences for the distribution of cash and funding needs across enterprises. Fast-growing Emerging Markets have become core drivers of corporate revenue growth. With governments in many of these “complex countries” easing regulations, and fostering financial and technology innovation, demands for treasury resource time are increasing.

Meanwhile, rapid advances in technology and changes in financial services – perhaps best exemplified by the transformation of the payments landscape – can create a conundrum for treasurers: Should they invest in reengineering infrastructure now, or wait until the direction of travel becomes clearer?

All of this leaves many treasurers facing greater uncertainty than at any time over the past decade. We believe it is time to future proof treasury by digitizing, moving toward real-time operations, and focusing resources toward supporting enterprise growth while navigating the heightened risks – and leveraging the opportunities – that are likely to define the 2020s.

<sup>1</sup> Source: Citi Financial Strategy Group, 2020. The gap between the highest- and lowest-valued enterprises is at its greatest for a decade, with companies differentiated based on ability to innovate, exposure to protectionism, earnings reliability, and financial flexibility.

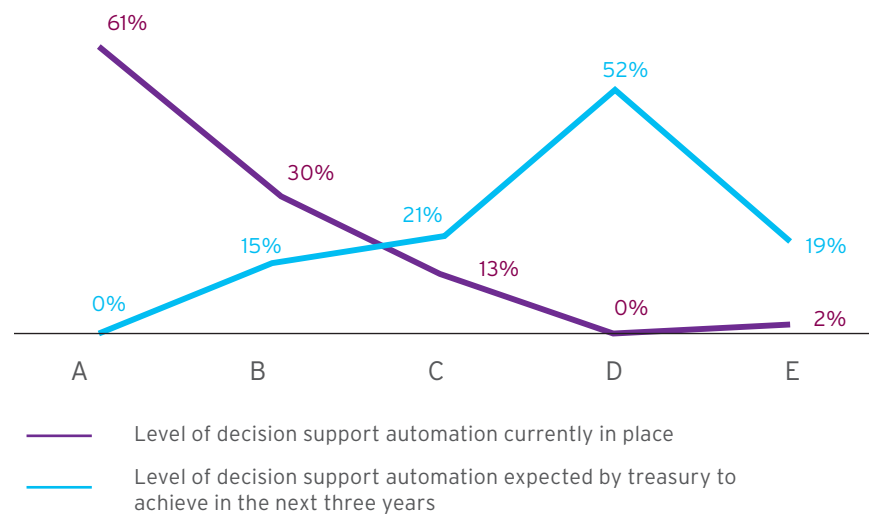
## Reignite collaboration to digitize

Widespread automation of operational treasury processes through the deployment of new tools and techniques is now generally expected. Companies with the appetite and capacity to go beyond the basics are best placed to take advantage. Treasurers, long curious about the potential of digitization, are now investigating, evaluating and experimenting with new technologies.

Machine learning-enabled technologies, built on high quality aggregated datasets, offer the promise of greater automation, augmented decision-making and prescriptive analytics. As an example, this may resolve the age-old corporate treasury challenge of improving the effectiveness and efficiency of forecasting. To this end, several Citi clients are participating in collaborative experiments to leverage emerging digital tools that aggregate fractured datasets more effectively, recognize patterns to adjust liquidity predictions, and simulate next-best actions based on policies and risk appetite.

Against this backdrop, treasurers should partner across their enterprise and collaborate with banks, technology providers, and fintechs. Collaboration is a priority if treasury is to stay abreast of emerging technologies, identify digitization opportunities, and secure the financial and human capital to realize the opportunity.

### Prescriptive Analytics Appetite



A: Descriptive Analytics (Static Reporting and Visualization)

B: Diagnostic Analytics (Interactive Dashboards)

C: Predictive Analytics (Machine Powered Forecasting)

D: Prescriptive Analytics (Decision Support/Recommendations/Deal Determination)

E: Artificial Intelligence (Decision Automation / Deal Execution)

Source: Citi Treasury Leadership Client Forum, November 2019

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### Redesign treasury for real time

We believe that the shift to real-time treasury – where payments, liquidity management, and security management are effectively instantaneous – will gather pace with the emergence of an always-on economy. Real-time payments are becoming commonplace in more markets, bringing new risks and a need for better management of visibility, compliance, and liquidity to support these flows. Companies are being impacted at different paces, largely defined by their industry ecosystem. For example, digital native companies, often services-based and with short cash cycles, and companies selling direct to consumers are becoming early adopters. Ultimately, this is a secular change and most companies are, at best, only moderately prepared.<sup>2</sup> However, all companies must prepare to have the ability to move, manage, and invest money on a global, 24/7/365 basis in support of the operating business. Hence, all treasurers should have a strategy and plan for deployment in the coming years.

Clients often inquire about our views on emerging payment providers and networks. We believe this developing market requires close monitoring. Many emerging providers are networks of networks and lie outside of traditional banking channels. Today, such providers in the C2C, B2C/C2B, and B2B spaces experience lighter regulation, as compared to banks. Treasurers need to evaluate the know-your-customer, anti-money laundering and financial risks associated with new payment offerings from non-bank providers. They should also ask whether it is realistic to expect light-touch regulation to continue as volumes build.

### What can we expect?

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Customers, SME vendors, consumers and employees will expect banking to be 24/7/365.
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Investments will need increased liquidity - FX and Money Markets will need to evolve.
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Companies will need to manage competing interests between stakeholders.
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Banks will adjust interest conditions to account for continuous velocity of money.
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Treasury will need to develop systems and processes to manage liquidity in real time.

<sup>2</sup> Source: In January 2020, Citi Treasury Advisory Group polled a group of clients in Asia, EMEA, and North America. A majority of respondents reported they were moderately prepared to unprepared for what real-time treasury will bring. One divergence between regions was that, in Asia, 52% responded they were moderately prepared compared to 44% in North America. We believe this is a consequence of the more advanced use of real-time payments in Asia. We will continue to assess how companies will deal with global real-time liquidity and solutions needed to support evolving needs.





## Re-architect treasury structures

A combination of one-off and recurring themes calls for companies to revisit established treasury operating principles and centralization structures.

To start, regulators are sticking to their guns on the demise of LIBOR and transition to Alternative Risk Free Rates. With LIBOR referenced in myriad external and internal contracts and documentation – including loans, bonds, derivatives, supplier finance programs, transfer prices, and intercompany loans – many companies face enterprise-wide financial, accounting, and tax considerations. The preparation needed to ensure a successful transition should not be underestimated and will consume treasury capacity in working with cross-company stakeholders to address the changes.

BEPS has taken time to gain momentum, however, the principles, with variations, are being enacted in laws around the world. More generally, tax authorities are scrutinizing intellectual property transfers, intercompany transactions, and the basis for arms-length pricing more than ever. Another trend is for services to become taxed where consumed, rather than where created. All of this is driving changes in legal entity and tax structures – impacting treasury's management of currency exposures, payment and collection patterns, and cash concentration and intercompany funding needs. We believe treasurers cannot afford to wait for tax and legal teams to make decisions and then react. They must build partnerships across the organization and ensure they have a seat at the table from the planning phase onwards.

Treasurers can also expect to continue spending more time and resources on compliance. Indeed, with an alphabet soup of rules from FATCA to the GDPR, compliance management is becoming part of the daily routine, with treasury often having default responsibility.

The overall consequence is that established treasury centralization structures and operating models – treasury centers, in-house banks, the domicile of cash pools, etc., – may no longer be fit for purpose at many companies, even before a likely further onslaught of change. Treasurers should plan for treasury re-engineering as a continuous process – a regular checkup of the existing setup to diagnose, and then make necessary changes to ensure they remain fit for purpose.




## Re-engineer technology

An underlying theme across the challenges facing treasury and the broader organization is the need – and opportunity – for treasury to advance its technology.

Most large companies have well-established and deeply-embedded, if often complex, treasury technology topologies. This usually includes high levels of integration between the treasury management system (TMS), the corporate enterprise resource planning (ERP) solution, and standardized connectivity with a consolidated set of banks.

This landscape is now rapidly changing and boundaries blurring. The TMS market is consolidating; established technology providers and new entrants are delivering new, digital treasury services; and banks are investing to embed value-added financial services within the corporate infrastructure. The new benchmark is becoming full automation of operational treasury and digital augmentation of human action. Treasurers of large corporates with mature treasury departments are grappling with the question of should they invest now, or should they wait until the fast-evolving technology landscape normalizes? Companies at earlier stages of treasury maturity have a different challenge: Should they follow the well-trodden path of established companies toward “best-in-class treasury,” or does changing financial services and technology landscape offer new approaches?

We believe that, while there are no shortcuts, the emergence of new solutions offers opportunities to make significant advances in treasury maturity and capability at all companies. Treasurers should take a strategic approach to identifying requirements for the coming decade, based on forming well-defined views of anticipated changes in the business and its financial services requirements. Many newer and midsized companies will have the opportunity to leapfrog, rather than follow the gradual evolution of past models.



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## Invest in talent for tomorrow

The new decade will bring rapid change, creating challenges for treasurers, but also tremendous opportunity to reassert the value of treasury. As industries reshape, treasurers equipped to support the corporate growth and progress agenda – beyond risk management and financial efficiency – will be recognized as leaders of centers of excellence that create value for the franchise. Those who do not risk being permanently disintermediated.

In this, talent management will come to the top of the treasurer's agenda. Expertise in risk management and cash management is no longer sufficient. Treasury professionals will need to have a broad set of hard and soft skill sets, combined with deep understanding of technology and data science. These skills are needed to modernize treasury for the coming technologically advanced age and to start leveraging machine learning, artificial intelligence, application programming interfaces, and big data. If these terms are not in the treasurer's lexicon, they will soon need to be. And, indeed, treasurers are recognizing that the pace and scale of technological disruption call for staff with increasing expertise in technology and emerging real-time financial services.<sup>3</sup>

## Talent management will come to the top of the treasurer's agenda.

### Concluding Thoughts

The 2020s look set to be a time of momentous change. The focus of our paper this year is on future-proofing treasury. That does not de-emphasize the need for companies to have strong foundations across core treasury pillars, delivering financial efficiency and strong risk management. We do believe that treasurers will need to simultaneously manage across the near term of inevitable current-year priorities, the medium term of building foundations that may only pay off after a few years, and the long-term informed by a clear vision of objectives and a strategic plan to future proof the Treasury function. Those who do so will be best placed to succeed in this new decade. At Citi's Treasury Advisory Group, we look forward to the partnership with clients. ■

<sup>3</sup> Source: In January 2020, Citi Treasury Advisory Group polled a group of clients in Asia, EMEA, and North America. We asked clients what expertise they were prioritizing for future Treasury talent needs – Real Time and Alternative Payments, Technology (e.g., API), Big Data, Advanced Risk Management, or Tax and Regulations. The modal response was 28% responding "all of the above", while Risk Management and Tax and Regulations (long the bread and butter of treasury management) came last.

### Acknowledgements

We thank Citi clients and our colleagues for their kind input and feedback and Olivia Kohari for her editorial support.

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